

**ORIGINAL**  
COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

**OPEN MEETING ITEM**



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ARIZONA CORPORATION COMMISSION **RECEIVED**

2013 MAY 20 P 4: 02

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: MAY 20, 2013  
DOCKET NO.: W-01412A-12-0195

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Sarah N. Harpring. The recommendation has been filed in the form of an Opinion and Order on:

VALLEY UTILITIES WATER COMPANY, INC.  
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

MAY 29, 2013

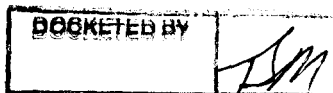
The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 11, 2013 AND JUNE 12, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission  
**DOCKETED**

MAY 20 2013



*Jodi A. Jerich*  
JODI JERICH  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 BOB BURNS  
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF  
9 VALLEY UTILITIES WATER COMPANY, INC.,  
10 AN ARIZONA CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR VALUE OF ITS  
12 UTILITY PLANT AND PROPERTY AND FOR AN  
13 INCREASE IN ITS RATES AND CHARGES FOR  
14 UTILITY SERVICE BASED THEREON.

DOCKET NO. W-01412A-12-0195

DECISION NO. \_\_\_\_\_

**OPINION AND ORDER**

11 DATE OF HEARING: July 20, 2012; February 22, 2013 (Procedural  
12 Conferences); February 27, 2013 (Public Comment);  
March 19, 2013

13 PLACE OF HEARING: Phoenix, Arizona

14 ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring

15 APPEARANCES: Mr. Jay L. Shapiro and Mr. Patrick J. Black,  
16 FENNEMORE CRAIG, on behalf of Applicant; and

17 Mr. Wesley Van Cleve and Ms. Bridget A. Humphrey,  
18 Staff Attorneys, Legal Division, on behalf of the  
Utilities Division of the Arizona Corporation  
Commission.

19 **BY THE COMMISSION:**

20 This case involves an Application for a permanent rate increase, filed with the Arizona  
21 Corporation Commission ("Commission") on May 30, 2012, by Valley Utilities Water Company,  
22 Inc. ("Valley"), a Class B water utility, in which Valley requested adjustments to its rates and charges  
23 for utility service to allow it to cover its operating expenses and earn a just and reasonable return on  
24 the fair value of its property. Valley's Application uses a test year ending December 31, 2011. In its  
25 Application, Valley also originally requested to have its existing Arsenic Remediation Surcharge  
26 Mechanism made permanent. The parties to this matter have entered into a Settlement Agreement  
27 resolving all of the disputed issues in this matter.

28 \* \* \* \* \*

1 Having considered the entire record herein and being fully advised in the premises, the  
2 Commission finds, concludes, and orders that:

3 **FINDINGS OF FACT**

4 **I. Background**

5 1. Valley is a closely held Arizona C corporation, owned by a family. (Tr. at 17.) Valley  
6 provides water utility service, pursuant to a Certificate of Convenience and Necessity granted by the  
7 Commission in 1954, to approximately 1,415 connections in an approximately five-square-mile  
8 unincorporated area of Maricopa County located east of Luke Air Force Base. (Ex. A-1, Jones Dir.;  
9 Ex. S-1.) The vast majority of Valley's connections are for single-family homes, although Valley  
10 also serves 95 commercial connections (including multi-family dwellings) and 5 fire service  
11 customers. (Ex. A-1, Jones Dir.) Residential meter sizes range from 5/8" x 3/4" to 1 1/2", with most  
12 residential customers being served by 3/4" meters. (*Id.*) Valley's commercial customers are served by  
13 meters ranging from 5/8" x 3/4" to 2". (*Id.*)

14 2. During the 2011 test year ("TY"), Valley's system had five production wells<sup>1</sup> with a  
15 combined flow rate of 1,215 gallons per minute ("GPM"), six storage tanks with a combined capacity  
16 of 2,060,000 gallons, four booster stations, and a distribution system serving more than 1,400  
17 connections. (Ex. S-1.) The system is interconnected with Liberty Utilities, by a 6" meter, for  
18 emergency purposes. (*Id.*)

19 3. The Commission's Utilities Division ("Staff") inspected Valley's system on  
20 September 7, 2012, and determined that the system has adequate well capacity and storage capacity  
21 to serve Valley's present customer base as well as reasonable growth. (Ex. S-1.) Staff added that the  
22 emergency interconnection with the system of Liberty Utilities provides a supplemental source of  
23 water for Valley. (*Id.*)

24 4. Valley's system has two arsenic treatment facilities ("ATFs"): a 500 GPM ATF at its  
25 Glendale Well Yard Site, which was placed into service in 2009, and a 1,500 GPM ATF at its  
26 Bethany Hills West Booster Station Site, which was placed into service in 2011. (Ex. S-1; Ex. A-1,  
27

28 <sup>1</sup> Another production well, known as Well No. 4, was taken out of service in 2007 because of well casing deterioration, and was still out of service when the system was inspected by Staff's engineer. (Ex. S-1.)

1 Jones Dir.) This is the first rate case in which these ATFs have been considered in determining rate  
2 base, as they were not yet in service during the test year used for Valley's most recent prior rate case.  
3 (Ex. A-1, Jones Dir.)

4 5. According to a Maricopa County Environmental Services Department ("MCESD")  
5 Compliance Status Report dated August 29, 2012, Valley's system has no deficiencies and is in  
6 compliance with MCESD requirements. (Ex. S-1.)

7 6. Valley is located in the Arizona Department of Water Resources' ("ADWR's")  
8 Phoenix Active Management Area ("AMA"), and according to an ADWR Water Provider  
9 Compliance Report dated August 28, 2012, is in compliance with ADWR's requirements governing  
10 water providers and/or community water systems. (Ex. S-1.)

11 7. For the TY, Valley reported 327,872 gallons pumped and 954 gallons purchased,  
12 along with 301,430 gallons sold, for a total water loss of 27,936 gallons, or 8.33 percent, which is  
13 within Commission standards for non-account water. (See Ex. A-4; Ex. S-1.)

14 8. Valley is required to participate in the Arizona Department of Environmental  
15 Quality's ("ADEQ's") Monitoring Assistance Program ("MAP"). (Ex. S-1.)

16 9. Valley is a regulated Tier I municipal provider in the ADWR Modified Non-Per  
17 Capita Conservation Program and is required to have a public education program and to implement  
18 one Best Management Practice ("BMP") in its service area. (Ex. A-1, Jones Dir.) In September  
19 2009, ADWR approved Valley's Meter Repair and/or Replacement Program as a BMP. (*Id.*) In  
20 Decision No. 71482 (February 3, 2010),<sup>2</sup> the Commission required Valley to submit at least five  
21 BMPs for Commission consideration. (Ex. A-1, Jones Dir.) Valley submitted its five proposed BMP  
22 tariffs<sup>3</sup> in June 2010, and the Commission approved the BMP tariffs in Decision No. 72005  
23 (December 10, 2010).<sup>4</sup> (Ex. A-1, Jones Dir.)

24 10. Valley's current rates were established in Decision No. 71482 (February 3, 2010),  
25 using a test year ending June 30, 2008. In Decision No. 71482, the Commission determined that

26 <sup>2</sup> Official notice is taken of Decision No. 71482, issued in Docket No. W-01412A-08-0586.

27 <sup>3</sup> The proposed BMP tariffs were for the following: Youth Conservation Education Program, Water Budgeting  
28 Program (Non-Residential), Customer High Water Usage Inquiry Resolution, Water Waste Investigations and  
Information, and Meter Repair and/or Replacement. (Ex. A-1, Jones Dir.)

<sup>4</sup> Official notice is taken of Decision No. 72005.

1 Valley had a fair value rate base of negative \$169,027 and that, as a result, Valley's rate base was not  
2 useful in setting just and reasonable rates, which instead were set using an operating margin of 10.00  
3 percent. The Commission also found that Valley had significantly improved its equity position since  
4 its last rate case, although it still had a long way to go. The Commission ordered Valley to file an  
5 updated version of its Equity Plan and ordered that the Equity Plan must require Valley to continue  
6 improving its equity position; must prohibit Valley from draining equity through dividend  
7 distributions and other distributions to shareholders, such as bonuses and excessive increases in  
8 salaries and benefits; and must require Valley to implement and maintain adequate internal controls  
9 over expenditures so as to control expenses and avoid misappropriations.<sup>5</sup> The Commission further  
10 ordered Valley to implement and comply with the updated Equity Plan required to be filed. Valley  
11 filed its updated Equity Plan on August 5, 2010, stating therein that it had already achieved a positive  
12 equity position.

13 11. In Decision No. 71482, the Commission also determined that an Arsenic Impact Fee  
14 Tariff ("AIF Tariff") approved in Decision No. 67669 (March 9, 2005),<sup>6</sup> should remain effective until  
15 Valley's next permanent rate case (i.e., this case) because the issue of cancelling the AIF Tariff had  
16 not been fully litigated. That AIF Tariff is still in effect. (Ex. S-1.)

17 12. Valley currently also is charging an Arsenic Remediation Surcharge pursuant to an  
18 Arsenic Remediation Surcharge Mechanism ("ARSM") authorized in Decision No. 71287 (October  
19 7, 2009).<sup>7</sup> The Commission approved the ARSM to cover the costs of debt service for a loan Valley  
20 obtained from the Water Infrastructure Finance Authority of Arizona ("WIFA") in the amount of  
21 \$1,926,100, as authorized by the Commission in Decision No. 68309 (November 14, 2005)<sup>8</sup> for the  
22 purpose of paying for arsenic treatment facilities to bring Valley's water into compliance with the  
23 then-impending reduction of the maximum contaminant level ("MCL") for arsenic. (Decision No.  
24 71287.) The ARSM surcharge ranges from \$5.51 per month for a customer served by a 5/8" x 3/4"

25  
26 <sup>5</sup> The original Equity Plan had been required by Decision No. 68309 (November 14, 2005) and filed with the  
Commission in February 2006. Official notice is taken of Decision No. 68309, issued in Docket Nos. W-01412A-04-  
0736 et al.

27 <sup>6</sup> Official notice is taken of Decision No. 67669.

28 <sup>7</sup> Official notice is taken of Decision No. 71287.

<sup>8</sup> Official notice is taken of Decision No. 68309.

1 meter to \$88.12 for a customer served by a 3" meter; a 3/4" meter customer pays \$8.26 per month.  
2 (*Id.*) The Commission ordered that the ARSM surcharge would expire on the effective date of the  
3 rates authorized in a rate proceeding subsequent to the then-pending rate proceeding, or on August  
4 31, 2013, whichever came first. (*Id.*)

5 13. Valley has an approved curtailment plan tariff and an approved backflow prevention  
6 tariff. (Ex. S-1.)

7 14. Staff reported that Commission records showed four complaints against Valley in  
8 2010 (two regarding billing and two regarding deposits), no complaints against Valley in 2011, and  
9 two complaints against Valley in 2012 (one regarding billing and one regarding the rate case). (Ex.  
10 S-5.) Staff further reported that all complaints had been resolved and closed. (*Id.*)

11 15. Staff's Compliance Section reported that Valley does not have any delinquent  
12 Commission compliance items.<sup>9</sup> (Ex. S-1.)

## 13 **II. Procedural History**

14 16. On May 30, 2012, Valley filed with the Commission an Application requesting an  
15 order establishing the fair value of its plant and property used for the provision of public water  
16 service and approving permanent rates and charges for utility service designed to produce a fair  
17 return thereon. Valley requested authorization to collect its existing ARSM surcharge permanently  
18 and, in addition, approval of rates that would increase annual revenues by \$157,015 or 10.79 percent.  
19 (Ex. A-4.)

20 17. On July 3, 2012, Staff issued a Letter of Sufficiency stating that Valley's application  
21 had met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103 and  
22 classifying Valley as a Class B utility.

23 18. On July 5, 2012, a Procedural Order was issued scheduling a procedural conference  
24 for July 20, 2012; scheduling a hearing for March 4, 2013; and establishing other procedural  
25 requirements and deadlines.

26  
27 <sup>9</sup> This may no longer be accurate because the docket for the AIF Tariff does not show that Valley filed an annual AIF  
28 status report by January 31, 2013, as required by Decision No. 67669. (See Docket No. W-01412A04-0848.) The  
Commission takes official notice of the absence of such a filing in that docket.

1           19.     On July 6, 2012, Valley filed a Motion for Changes to Procedural Order, requesting on  
2 behalf of itself and Staff that the procedural schedule be modified.

3           20.     On July 20, 2012, the procedural conference was held as scheduled at the  
4 Commission's offices in Phoenix, Arizona, with both Valley and Staff appearing through counsel.  
5 The procedural schedule for this matter was discussed and determined.

6           21.     On July 23, 2012, a Procedural Order was issued memorializing the procedural  
7 schedule.

8           22.     On August 24, 2012, Valley filed a Notice of Filing Certificate of Publication and  
9 Proof of Mailing, showing that the notice prescribed by Procedural Order had been mailed to each of  
10 Valley's customers on August 16, 2012, and published in the *West Valley View* on August 17, 2012.

11           23.     On December 31, 2012, Staff filed Staff's Motion to Extend Filing Due Date,  
12 requesting that the due date for Staff's Direct Testimony be extended from that date to January 7,  
13 2013, due to Staff resource constraints, and stating that Staff would not object to corresponding  
14 extensions of time if needed.

15           24.     On January 2, 2013, Valley filed a Response to Staff's Motion to Extend Filing Due  
16 Date, objecting to the Motion and requesting that any extension granted not prejudice Valley by  
17 abbreviating Valley's preparation periods or delaying the hearing.

18           25.     On January 3, 2013, Staff filed Staff's Reply Motion, stating that Staff had  
19 communicated with Valley and agreed with Valley that the deadline for Valley's Rebuttal Testimony  
20 could be extended from January 18, 2013, to January 25, 2013, and the remaining procedural  
21 deadlines and scheduled hearing dates retained.

22           26.     On January 3, 2013, a Procedural Order was issued extending the deadline for Staff's  
23 Direct Testimony to January 7, 2013, and extending the deadline for Valley's Rebuttal Testimony to  
24 January 25, 2013, and otherwise retaining the procedural schedule established in the Procedural  
25 Order of July 23, 2012.

26           27.     On January 7, 2013, Staff filed Notice of Filing Staff's Direct Testimonies, along with  
27 the Direct Testimonies of John Cassidy, Staff Public Utilities Analyst, and Marlin Scott, Jr., Staff  
28

1 Utilities Engineer. Staff stated in its Notice that the Direct Testimony of Brendan Aladi, Staff Public  
2 Utilities Analyst III, would be filed on January 8, 2013.

3 28. On January 9, 2013, Staff filed Notice of Filing Staff's Direct Testimony, along with  
4 the Direct Testimony of Mr. Aladi.

5 29. On January 25, 2013, Valley filed Notice of Filing Rebuttal Testimony, along with the  
6 Rebuttal Testimonies of Robert L. Prince, Valley's President, and Ray L. Jones, P.E., Owner and  
7 Principal of ARICOR Water Solutions, LC and Consultant for Valley.

8 30. On February 8, 2013, Staff filed Staff's Notice of Filing Surrebuttal Testimony, along  
9 with the Surrebuttal Testimonies of Mr. Cassidy and Mr. Scott. Staff stated in its Notice that the  
10 Surrebuttal Testimony of Mr. Aladi would be filed on February 11, 2013; that Valley had no  
11 objection to this scheduling modification; and that Valley would file its Rejoinder Testimony on  
12 February 20, 2013.

13 31. On February 11, 2013, Staff filed Staff's Notice of Filing Surrebuttal Testimony,  
14 along with the Surrebuttal Testimony of Mr. Aladi.

15 32. On February 13, 2013, Staff filed Staff's Notice of Settlement Discussions, stating that  
16 Staff and Valley might enter into settlement discussions on or after February 19, 2013, at the  
17 Commission's Phoenix offices, as Valley had approached Staff with the possibility of attempting to  
18 settle this matter.

19 33. On February 20, 2013, Valley filed Notice of Filing Rejoinder Testimony, along with  
20 the Rejoinder Testimonies of Mr. Prince and Mr. Jones. Valley stated that it was filing one day late  
21 because Staff had filed Mr. Aladi's Surrebuttal Testimony late.

22 34. On February 21, 2013, Staff filed Notice of Settlement, stating that Staff and Valley  
23 had reached a settlement, were in the process of drafting a formal settlement agreement, and proposed  
24 to use the scheduled prehearing conference to finalize the procedural schedule going forward.

25 35. On February 22, 2013, the prehearing conference convened as scheduled, with Valley  
26 and Staff represented by counsel, and was used as a procedural conference to discuss the  
27 requirements and deadlines for supportive testimony regarding the settlement agreement, a new  
28 hearing date, and extension of the Commission's time frame in this matter.



1        36.    On February 22, 2013, a Procedural Order was issued directing that the February 27,  
2 2013, hearing date would be used only for the taking of public comment; vacating the February 28  
3 and 29, 2013, hearing dates; requiring Valley and Staff to file the executed settlement agreement  
4 within 24 hours after execution; requiring Valley and Staff to file supportive testimony by March 7,  
5 2013; scheduling the hearing for March 19, 2013; and extending the Commission's time frame in this  
6 matter by 20 days.

7        37.    On February 25, 2013, Staff filed Notice of Filing Settlement Agreement, along with a  
8 copy of the Settlement Agreement entered into by Valley and Staff on February 22, 2013.

9        38.    On February 27, 2013, the public comment proceeding convened as scheduled, with  
10 Valley appearing through Mr. Prince and Staff appearing through counsel. No member of the public  
11 attended to provide comment.

12        39.    On February 27, 2013, two comments were filed by customers opposing Valley's  
13 proposed rate increase.

14        40.    On March 7, 2013, Valley filed Notice of Filing Settlement Testimony, along with the  
15 Settlement Testimony of Mr. Jones, and Staff filed Notice of Filing Settlement Testimony, along with  
16 the Settlement Testimony of Elijah O. Abinah, Assistant Director for Staff.

17        41.    On March 19, 2013, a full evidentiary hearing was held before a duly authorized  
18 Administrative Law Judge of the Commission at the Commission's offices in Phoenix, Arizona.  
19 Valley and Staff appeared through counsel and presented documentary evidence and the live  
20 testimony of Mr. Jones and Mr. Abinah, respectively. No member of the public attended to provide  
21 comment. At the conclusion of the hearing, it was determined that Staff would file a late-filed exhibit  
22 regarding prior Commission treatment of Arizona WIFA Debt Service Reserve Funds in relation to  
23 working capital.

24        42.    On March 25, 2013, Staff filed Staff's Late Filed Exhibit.

25 ...

26 ...

27 ...

28 ...

### III. Pre-Settlement Positions

#### A. Application and Staff Direct

43. In Valley's Application, and in Staff's Direct Testimony, the parties took the following positions:<sup>10</sup>

	Valley Application	Staff Direct Testimony
TY Adjusted Operating Revenues:	\$1,454,522	\$1,268,867
TY Adjusted Operating Expenses:	\$1,434,894	\$1,346,444
TY Adjusted Operating Income:	\$19,628	(\$77,577)
Adjusted OCRB:	\$2,201,184	\$1,997,883
TY Rate of Return:	0.89%	-3.88%
Required Operating Income:	\$142,003	\$123,869
Operating Income Deficiency:	\$122,375	\$201,446
Gross Revenue Conversion Factor	1.2829	1.5790
<b>Required Revenue Increase:</b>	<b>\$157,001</b>	<b>\$318,082</b>
<b>Required Revenue Increase %:</b>	<b>10.79%</b>	<b>25.07%</b>
Required Operating Revenues:	\$1,611,523	\$1,586,949
<b>Required Rate of Return:</b>	<b>6.451%</b>	<b>6.200%</b>

44. In addition, in its Application, Valley proposed:

(a) That Valley's original cost rate base ("OCRB") be used as its fair value rate base ("FVRB") in this matter to minimize disputes and reduce rate case expense;

(b) That the Commission approve permanent adjustments to Valley's rates and charges, as proposed by Valley, or so as to produce a just and reasonable rate of return on the fair value of Valley's plant and property;

(c) That the Commission make permanent the ARSM approved for Valley in Decision No. 71287; and

(d) That the Commission authorize such other and further relief as may be appropriate to ensure that Valley has an opportunity to earn a just and reasonable return on the fair value of its utility plant and property and as may otherwise be required under Arizona law.<sup>11</sup>

<sup>10</sup> Ex. A-1, Jones Dir., Schedules A-1, A-2, C-1; Ex. S-3; Ex. S-5. Valley's TY adjusted revenue figure includes both the revenues generated by Valley's current authorized rates and charges and the revenues generated by Valley's current ARSM. Staff's TY adjusted revenue figure excludes the revenues generated by Valley's current ARSM.

<sup>11</sup> Ex. A-4. Valley's Application does not address the AIF Tariff. (See *id.*; Ex. A-1.)

45. In its Direct Testimony, Staff opposed Valley's proposal for the ARSM to be continued permanently, recommending instead that the ARSM surcharges be "rolled into base rates." (Ex. S-5.) Rather than reflecting the TY ARSM surcharge revenue, totaling \$185,655, within total TY revenues, as Valley had done, however, Staff deducted that amount from TY revenues and included it in Staff's recommended revenue increase amount. (*Id.*) As a result, it is difficult to compare the parties' positions directly.

**B. Surrebuttal and Rejoinder**

46. As of Staff's Surrebuttal and Valley's Rejoinder Testimony, the parties' positions were as follows:<sup>12</sup>

	Staff Surrebuttal	Valley Rejoinder
TY Adjusted Operating Revenues:	\$1,268,867	\$1,454,522
TY Adjusted Operating Expenses:	\$1,351,088	\$1,442,194
TY Adjusted Operating Income:	(\$82,221)	\$12,328
Adjusted OCRB:	\$1,963,591	\$2,114,066
TY Rate of Return:	-4.19%	0.58%
Required Operating Income:	\$127,633	\$137,414
Operating Income Deficiency:	\$209,855	\$125,086
Gross Revenue Conversion Factor	1.57707	1.2853
<b>Required Revenue Increase:</b>	<b>\$330,956</b>	<b>\$160,774</b>
<b>Required Revenue Increase %:</b>	<b>26.08%</b>	<b>11.05%</b>
Required Operating Revenues:	\$1,599,823	\$1,615,296
<b>Required Rate of Return:</b>	<b>6.50%</b>	<b>6.50%</b>

47. The above positions reflect agreement on several Staff-recommended rate base adjustments, including removal of \$10,580 for retired pumps, removal of \$60,000 in drainage improvements at the Bethany Arsenic Treatment Site as not used and useful, removal of \$14,610 to retire two wells, removal of \$3,269 in overbooked cost for post-TY plant, and removal of \$22,782 in accumulated depreciation reflecting the retired plant items. (Ex. A-1, Jones Rej.; Ex. S-6.)

...

...

<sup>12</sup> Ex. A-1, Jones Rej., Schedules A-1, A-2, C-1; Ex. S-6. Valley's TY adjusted revenue figure includes both the revenues generated by Valley's current authorized rates and charges and the revenues generated by Valley's current ARSM, while Staff's TY adjusted revenue figure excludes the revenues generated by the ARSM.

48. Valley's Rejoinder Testimony identified three remaining areas of disagreement: (1) Staff's recommended exclusion from rate base of Valley's \$146,105 WIFA debt service reserve cash deposit; (2) Staff's recommended lowering of Valley's \$10 late payment fee; and (3) Staff's recommended rate design, which would generate more revenue through commodity rates than would Valley's proposed rate design. (Ex. A-1, Jones Rej.) Valley also asserted that Staff's Surrebuttal Testimony included calculation errors for cash working capital associated with interest expense, bad debt, and property tax and that Staff's recommended rates would not generate Staff's recommended revenue requirement. (*Id.*)

C. Pre-Settlement Disputed Issues

1. Treatment of WIFA Debt Service Reserve Fund

49. Valley included in its calculation of working capital \$146,105 that Valley is required to have on deposit with WIFA as a debt service reserve fund ("DSRF"). Valley asserted that the DSRF is cash deposited with WIFA to secure Valley's WIFA debt, is clearly capital deployed by Valley in the provision of service to its customers, and is appropriately included in working capital allowance and rate base. (Ex. A-1, Jones Rej.) Valley also asserted that the Commission has previously authorized this treatment of special deposits in an Arizona Water Company case and that Staff has recently recommended inclusion of a debt service reserve fund in working capital in a pending rate case for Far West Water and Sewer, Inc.<sup>13</sup> (*Id.*) Mr. Jones testified that the cash for the DSRF has been deposited with WIFA, to secure Valley's WIFA debt as required by the terms of the loan agreement, and that WIFA will return the DSRF funds to Valley only after the WIFA loan is paid back in full. (Ex. A-1, Jones Reb.) According to Mr. Jones, the DSRF is clearly capital deployed by Valley in the provision of service to its customers and, as such, is appropriately included in working capital allowance and rate base. (*Id.*) Mr. Jones also stated that Valley's proposed treatment of the DSRF is consistent with A.A.C. R14-2-103(A)(3) because the rule defines working capital to include "a proper allowance for cash, materials and supplies and prepayments." (*Id.*)

...

<sup>13</sup> The Arizona Water Company case resulted in Decision No. 73736 (February 20, 2013). The pending case involving Far West Water and Sewer, Inc. is in Docket No. WS-03478A-12-0307.

1        50. On Direct, Staff asserted that the DSRF should be excluded from working capital  
 2 because the Commission has traditionally excluded DSRF when calculating a utility's cash working  
 3 capital allowance. (Ex. S-5.) On Surrebuttal, Staff asserted that the DSRF should not be a  
 4 component of working capital because the reported \$146,105 DSRF amount had not been included in  
 5 Valley's balance sheet, and Staff could not support recognizing it as a component of working capital  
 6 without proper accounting support.<sup>14</sup> (Ex. S-6.)

7                    2. Late Payment Fee

8        51. In Valley's most recent previous rate case, the Commission authorized Valley to  
 9 continue assessing a \$10 monthly late payment charge, although Staff had recommended a more  
 10 typical late payment charge of 1.50 percent per month. (Decision No. 71482.) In doing so, the  
 11 Commission stated:

12                    Late fees have two purposes—(1) to compensate a utility for additional  
 13 administrative effort that must be expended as a result of sending out  
 14 additional notices, making other customer contacts, and even resorting to  
 15 commercial collection efforts when a bill goes unpaid; and (2) to  
 16 encourage a customer to pay his or her bill in a timely fashion by serving  
 17 as a deterrent to nonpayment. In this case, Valley has a preexisting late  
 18 fee of \$10.00 per month and has established that approximately 16 percent  
 19 of its customers currently still fail to pay their bills on time. Valley has  
 20 also established, and Staff has agreed, that if Staff's recommended late fee  
 21 is adopted, Valley would collect a late fee of approximately \$1.00 from a  
 customer with a typical bill of approximately \$67.00. If a \$10.00 late fee  
 is not sufficient encouragement for a customer to pay his or her bill in a  
 timely fashion, \$1.00 certainly will not be sufficient encouragement to do  
 so, and may serve more as an invitation to additional customers not to pay  
 their bills on time. Upon considering the evidence in this matter, we find  
 that a 1.5-percent late fee clearly will not serve the second purpose set  
 forth above and that it also very likely would not serve even the first  
 purpose set forth above. . . . In light of the above, we find that it is  
 appropriate to retain Valley's late fee at \$10.00 per month.<sup>15</sup>

22        52. In this case, Valley proposed to retain its \$10.00 late fee, asserting that it is a long-  
 23 standing charge put in place to address a serious delinquency problem; that it has been effective in  
 24 reducing delinquency; and that any reduction of the charge will result in increased delinquency,  
 25 higher levels of bad debt, and lagging cash flow. (Ex. A-1, Jones Rej.) Valley further stated that  
 26 reducing the late charge to 1.50 percent of the outstanding balance would result in the loss of

27 <sup>14</sup> Staff later testified that this assertion had been made in error, as the DSRF was reflected in Valley's accounts. (Tr. at  
 28 35.)

<sup>15</sup> Decision No. 71482 at 24-25 (citations and footnotes omitted).

1 approximately \$25,000 in annual revenue, which is equal to approximately 20 percent of Staff's  
2 recommended operating income and more than double the difference between the revenue  
3 requirement recommendations of Valley and Staff. (*Id.*) Valley asserted that Staff had not addressed  
4 the resulting revenue loss in any other way, that the issue had previously been litigated, and that any  
5 change in the Commission's policy would result in Valley's inability to earn its authorized rate of  
6 return. (*Id.*) Valley also asserted that its delinquency rate had been close to 30 percent before the  
7 \$10.00 late charge was put in place, that the \$10.00 late charge has resulted in a delinquency rate  
8 consistently below 20 percent, that the delinquency rate has held steady even during the recent  
9 economic downturn rather than increasing, and that the 1.50-percent late charge would result in  
10 typical late charges of approximately \$1.60 and in much higher delinquency rates. (Ex. A-1, Prince  
11 Rej.)

12 53. Staff asserted that the \$10.00 late charge should be reduced to a late payment charge  
13 of 1.50 percent of a customer's outstanding balance per month because the \$10.00 late fee is  
14 excessive compared to the fees of other Arizona utilities. (Ex. S-6.) Staff also asserted that the  
15 \$10.00 late fee is not effective because Valley's delinquency rate is still as high as it was during  
16 Valley's last rate case and still generates approximately \$28,000 to \$30,000 per year in late fees.  
17 (*Id.*) Staff recommended that Valley develop and present to the Staff Consumer Services Section,  
18 within 120 days after the effective date of the Decision in this matter, other strategies to solve or  
19 improve its delinquency rate, after which the Consumer Services Section would evaluate the  
20 strategies and make recommendations to Valley regarding the strategies. (*Id.*)

21 3. Rate Design

22 54. Valley proposed that the Commission include the ARSM in base charges and increase  
23 the base charges for all meter sizes and the commodity charges for all tiers by the same percentage.  
24 (Ex. A-1, Jones Rej.) Mr. Jones testified that Valley's rate design would produce 56.7 percent of its  
25 revenue from commodity charges and 43.3 percent of its revenue from base charges, and that 53.3  
26 percent of the revenue would be recovered almost equally from second- and third-tier commodity  
27 rates. (*Id.*) Mr. Jones characterized Valley's rate design as having an "aggressive, but balanced,  
28 conservation orientation." (*Id.*)

1        55. Valley asserted that Staff's recommended rate design was "wholly inadequate"  
2 because Staff's inclusion of TY ARSM revenues as part of the revenue increase, as opposed to  
3 existing revenues, resulted in a "flawed" rate design analysis "not reflect[ive of] reality" and in  
4 "inflated" representations of the increases included in Staff's rate design. (Ex. A-1, Jones Rej.) Mr.  
5 Jones testified that when the TY revenues generated by the flat ARSMs are included in existing  
6 revenues, the current rates and charges generate 43.4 percent of revenues from minimum and flat rate  
7 charges, as opposed to the 39.2 percent to be generated by monthly minimums under Staff's  
8 recommended rate design. (*Id.*) Mr. Jones also testified that the effective increase in revenue to be  
9 generated from base charges is only \$3,259 or 2.1 percent, not the \$85,271 or 25.77 percent asserted  
10 by Staff, when compared to the current level of revenue generated by base charges plus the ARSM.  
11 (*Id.*) Additionally, Mr. Jones showed that under Staff's rate design, the percentage of revenue to be  
12 generated by first tier and second tier commodity rates would decrease, and the largest percentage  
13 increase would be generated in the third tier. (*Id.*) Mr. Jones testified that because Staff's  
14 recommended rate design shifts costs from base charges to commodity charges and from lower  
15 consumption tiers to the third tier, it would result in increased revenue volatility and in Valley's  
16 inability to collect its revenue requirement. (*Id.*)

17        56. Mr. Aladi testified that Staff's rate design was created using the entire revenue  
18 requirement, not just the increase amount, and that the revenue requirement is appropriately  
19 distributed among the minimum and commodity charges. (Ex. S-6.) Mr. Aladi also testified that  
20 Staff's Surrebuttal rate design would generate 40 percent of Staff's revenue requirement from the  
21 monthly minimum charge, whereas Valley's current rate design recovers only 34.67 percent of its  
22 total revenue requirement from the monthly minimum charge. (*Id.*) Mr. Aladi also testified that  
23 Staff's rate design would recover \$85,271, or 25.77 percent, of the recommended revenue increase  
24 amount from the monthly minimum charge. (*Id.*)

25            4.     Calculation Differences

26        57. Valley asserted that Staff had made errors in calculating the proposed revenue from  
27 Staff's recommended rates and that the revenue generated by Staff's recommended rates would  
28 actually exceed Staff's recommended revenue requirement by more than \$11,000. (Ex. A-1, Jones

Reb.; Ex. A-1, Jones Reb.) Mr. Jones testified that this miscalculation was the reason for the discrepancy in Valley's and Staff's assertions regarding the percentage of revenue to be generated from monthly minimum charges (39.2 percent versus 40 percent). (Ex. A-1, Jones Reb.) Mr. Jones also asserted that Staff had made errors in calculating bad debt, property taxes, and income taxes due to Staff's treatment of the TY ARSM revenue in relation to these calculations and that Staff's typical bill analysis schedules did not accurately reflect Valley's current rates, Staff's proposed rates, or the correct average and median usage levels for the 5/8" x 3/4" residential class. (Ex. A-1, Jones Reb.)

58. Staff did not address Valley's assertions regarding alleged errors made by Staff. (See Ex. S-6.)

#### D. Pre-Settlement Proposed Rates Bill Impacts

59. The rates and charges proposed by Valley on Rejoinder and by Staff on Surrebuttal would have had the following impact on an average or median usage residential customer served by a 3/4" meter:

Residential Customer 3/4" Meter		Usage in Gallons	Current Bill	Proposed Bill	Dollar Change	Percent Change
Valley w/Arsenic Surch.	Average	9,425	\$47.04	\$52.49	\$ 5.45	11.59%
	Median	7,013	\$41.15	\$45.93	\$ 4.78	11.62%
Staff w/Arsenic Surch.	Average	9,425	\$47.04	\$47.41	\$ 0.37	0.79%
	Median	7,013	\$41.15	\$41.38	\$ 0.23	0.56%
Valley w/o Arsenic Surch.	Average	9,425	\$38.78*	\$52.49	\$13.71	35.35%
	Median	7,013	\$32.89*	\$45.93	\$13.04	39.65%
Staff w/o Arsenic Surch.	Average	9,425	\$38.78*	\$47.41	\$ 8.63	22.25%
	Median	7,013	\$32.89*	\$41.38	\$ 8.49	25.81%

\* The arsenic surcharge adds another \$8.26 per month for a 3/4" Meter Residential Customer.

#### IV. The Settlement

##### A. The Settlement Agreement

60. The Settlement Agreement, attached hereto and incorporated herein as Exhibit A,<sup>16</sup> was executed on February 22, 2013, by representatives for Valley and Staff, specifically Robert Prince, President, for Valley, and Steven Olea, Director, for Staff. (Ex. A-2.) The stated purpose of ...

<sup>16</sup> The Settlement Agreement was admitted herein as Exhibit A-2.



1 the Settlement Agreement is to settle all issues in this matter. (*Id.* at 1.) The Settlement Agreement  
2 asserts:

3 [T]he terms and conditions of this Agreement will serve the public interest  
4 by providing a just and reasonable resolution of the issues presented by  
5 [Valley's] Rate Case. The adoption of this Agreement will further serve  
6 the public interest by allowing all parties to obtain greater certainty and  
7 avoid the expense, delay, and risk associated with continued protracted  
8 litigation.<sup>17</sup>

9 The parties acknowledge that the Commission has plenary authority to determine Valley's fair value  
10 rate base and to establish just and reasonable rates thereon, that the Settlement Agreement requires  
11 Commission approval, and that the Commission will independently consider and evaluate the terms  
12 of the Settlement Agreement. (*Id.* at §§ 1.6, 4.1.)

13 61. The Settlement Agreement includes, as Exhibit A, Settlement Schedules setting out  
14 and supporting the parties' agreements related to revenue requirement, OCRB/FVRB, TY income  
15 and expenses, cost of capital, and rate design. (*See id.*)

16 B. Treatment of WIFA Debt Service Reserve Fund

17 62. The parties agree that the WIFA Debt Service Reserve Fund amount of \$146,105  
18 should be included in the working capital allowance as proposed by Valley. (*Id.* at § 2.1(b).)

19 C. Late Payment Fee

20 63. The parties agree that Valley's late payment fee should remain at \$10.00 per month.  
21 (*Id.* at § 2.1(e).) The parties further agree to meet, within 45 days of a decision in this docket, to  
22 discuss additional remedies Valley will employ to further reduce delinquency rates, and to have this  
23 docket remain open until December 31, 2013, solely for the late payment fee issue, to allow Valley to  
24 file any remedy resulting from the discussions with Staff. (*Id.*)

25 64. Neither Valley nor Staff was sure what the solution to Valley's excessive delinquency  
26 rates should be, but agreed that this docket should be left open so that they can have a dialogue  
27 concerning what solutions may be available and, if there is a need for Commission approval of a  
28 selected course of action, bring the issue to the Commission for consideration and approval using  
whatever process is appropriate. (*See Tr.* at 25-26, 45.)

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<sup>17</sup> Ex. A-2 at § 1.5.

D. Calculation Differences

65. The parties agreed that rate increases should be calculated using adjusted TY revenues of \$1,454,522, which includes TY ARSM revenues. (Ex. A-2 at § 3.1(a).) As a result, the parties reached agreement on property tax expense and bad debt expense. (*Id.* at §§ 2.1(c)-(d), 3.1.)

E. Rate Design

66. The parties agree that the ARSM should be discontinued, as the rates in the Settlement Agreement are based on adjusted TY revenues that include TY ARSM revenues. (*Id.* at § 3.1(a)-(b).)

67. The parties also agree that the rates should be designed so that 40 percent of metered revenue is collected from the monthly minimum, as had been proposed by Staff. (*Id.* at § 2.1(f).) Mr. Jones testified that the rate design was the “major give” by Valley, as Valley moved more toward Staff’s proposal than the other way around, with the result being an inverted tier conservation rate design that is a “more aggressive design than the old design.” (Tr. at 13-14.)

F. Cost of Capital

68. The parties agree on the following calculation of Valley’s cost of capital and authorized rate of return:<sup>18</sup>

	Weight	Cost	Weighted Avg. Cost
Common Equity	12.9%	9.1%	1.2%
Debt	87.1%	5.8%	5.0%
Weighted Avg. Cost of Capital			6.2%
Upward Adjustment			0.3%
<b>Authorized Rate of Return</b>			<b>6.5%</b>

G. TY Results, Rate Base, and Revenue Requirement

69. The parties agree on the following TY results, OCRB/FVRB, and revenue requirement for Valley:<sup>19</sup>

TY Adjusted Operating Revenues:	\$1,454,522
TY Adjusted Operating Expenses:	\$1,442,240

<sup>18</sup> Ex. A-2 at § 3.1(g). This end result is the same as proposed by Valley on Rejoinder, although Valley used a cost of equity of 11.00 percent, did not include an upward adjustment, and expressed its figures to two decimal points. (*See* Ex. A-1, Jones Rej. at Sched. D-1.)

<sup>19</sup> Ex. A-2 at Sched. A-1, Sched. C-1.

TY Adjusted Operating Income:	\$12,282
Adjusted OCRB/FVRB:	\$2,109,695
TY Rate of Return:	0.58%
Required Operating Income:	\$137,130
Operating Income Deficiency:	\$124,848
Gross Revenue Conversion Factor	1.2853
<b>Required Revenue Increase:</b>	<b>\$160,467</b>
<b>Required Revenue Increase %:</b>	<b>11.03%</b>
Required Operating Revenues:	\$1,614,989
<b>Required Rate of Return:</b>	<b>6.50%</b>

#### H. Rate Design

70. The parties agree on the following overall revenue percentage increases/decreases by customer class, under the rates and charges agreed upon in the Settlement Agreement:<sup>20</sup>

Customer Class	
Residential	10.22%
Commercial	10.49%
Commercial – Multifamily	15.21%
Commercial – Irrigation	17.47%
Private Fire	48.39%
Other Water	0%
Total Water Revenues	11.27%

The agreed-upon rates will also result in the following revenue percentage increases/decreases for the residential 5/8" x 3/4" meter, 3/4" meter, and 1" meter customer classes:<sup>21</sup>

Residential Meter Size	Number of Customers	Increase
5/8" x 3/4" Meter	98	9.19%
3/4" Meter	831	9.25%
1" Meter	371	11.44%

#### I. Bill Impacts

71. The agreed upon rates and charges would have approximately the following monthly bill impact on an average or median usage residential customer served by a 3/4" meter:<sup>22</sup>

Residential Customer 3/4" Meter		Usage in Gallons	Current Bill	Settlement Bill	Dollar Change	Percent Change
Settlement	Average	9,425	\$47.04*	\$50.90	\$3.86	8.21%

<sup>20</sup> *Id.* at Sched. A-1, Sched. H-1, Sched. H-2.

<sup>21</sup> *Id.* at Sched. H-2.

<sup>22</sup> *Id.* at Sched. H-4.

Median 7,013 \$41.15\* \$43.96 \$2.81 6.83%  
 \* Includes Arsenic surcharge of \$8.26

72. Although the private fire percentage increase appears to be large, it reflects a total annual increase of only \$330 in revenues, to be divided among approximately five customers. (Ex. A-2 at Sched. A-1, Sched. H-2.) The authorized service charges for fire sprinklers will not change; the increase will be generated due to the increase in the monthly minimum charge for the applicable meter size, as Valley's fire customers currently pay 2 percent of that charge per month rather than the lesser flat \$10.00 minimum. (*See* Tr. at 23.)

I. Additional Settlement Agreement Provisions

73. The Settlement Agreement provides that a final, non-appealable Commission order adopting the material terms of the Settlement Agreement shall constitute Commission approval of the Settlement Agreement for purposes of the Settlement Agreement. (Ex. A-2 at § 4.1(c).) The Settlement Agreement further provides that the parties agree to waive all rights to appeal a Commission Decision providing the Commission adopts the material terms of the Settlement Agreement. (*Id.* at § 4.1(b).)

74. The Settlement Agreement provides that Valley shall, consistent with any order of the Commission but no less than 15 days after the Commission issues an order in this matter, file compliance tariffs for Staff review and approval and that such compliance tariffs shall become effective on the effective date of the rate increase stated in the Commission's order. (*Id.* at § 4.1(d).)

75. The Settlement Agreement also states that if the Commission fails to issue an order adopting all material terms of the Settlement Agreement, or modifies or adds material terms to the Settlement Agreement, any party may withdraw from the Settlement Agreement and may pursue remedies at law without prejudice. (*Id.* at § 4.2.) The Settlement Agreement provides that whether a term is material shall be left to the reasonable discretion of a party choosing to withdraw from the Settlement Agreement. (*Id.*)

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1 **V. Parties' Support of Settlement Agreement**

2 76. Mr. Jones testified that the Settlement Agreement is in the public interest, as it  
3 represents a fair balance between the interests of shareholders and ratepayers and results in a  
4 "necessary but reasonable increase" in Valley's rates. (Ex. A-3 at 4-5.) Mr. Jones further testified  
5 that the Settlement Agreement:

- 6 • Allows a clear and orderly end to the ARSM as previously ordered  
7 by the Commission and provides for rate base treatment for  
8 substantial investments in arsenic treatment facilities without  
9 imposing unduly large rate increases on any customer group.
- 10 • Strengthens Valley's conservation oriented rate design, promoting  
11 additional water conservation and providing financial incentive  
12 and savings for customers who use less water.
- 13 • Provides Valley the opportunity to earn a reasonable return on rate  
14 base, which will allow it to continue improving its financial  
15 condition and increasing equity investment.<sup>23</sup>

16 77. Mr. Abinah testified that the Settlement Agreement is in the public interest; that the  
17 compromises made by the parties in the Settlement Agreement "further the public interest"; and that  
18 the Settlement Agreement treats Valley, its shareholders, and its ratepayers fairly. (Ex. S-7 at 3, 5,  
19 6.) Mr. Abinah testified that he agreed with the reasons stated by Mr. Jones concerning why the  
20 Commission should approve the Settlement Agreement. (Tr. at 37.) Mr. Abinah added that Staff's  
21 role is to balance the interest of the ratepayers and Valley and Valley's shareholders and that the rates  
22 included in the Settlement Agreement would accomplish this and allow Valley to maintain its  
23 financial integrity. (Tr. at 46.) Mr. Abinah further testified that Staff had also considered  
24 Commission resources and the risks inherent in any litigation. (*Id.*)

21 **VI. Discussion and Resolution**

22 78. The Settlement Agreement entered into by Valley and Staff reflects compromises  
23 made by both parties to allow for an agreement resolving all of the disputed issues in this matter. The  
24 Commission appreciates the parties' efforts in this regard.

25 79. As is acknowledged in the Settlement Agreement, the Commission is not bound by the  
26 terms of the Settlement Agreement and must independently consider and evaluate the terms of the  
27 Settlement Agreement to ensure that they are in the public interest.

28 <sup>23</sup> Ex. A-3 at 4-5.

80. Based on our consideration of the complete evidentiary record in this proceeding, including the level of compromise exhibited by the parties and the benefits to be derived by Valley and its customers, we find that the Settlement Agreement is in the public interest and should be adopted. In determining that the Settlement Agreement is in the public interest, we have considered the parties' testimony supporting the Settlement Agreement, the Settlement Agreement rate design that should continue to promote water conservation and to allow for customer control over a substantial portion of monthly bills while still allowing Valley a measure of revenue stability, and the benefits to be gained by Valley's ratepayers and the Commission as a result of efficient resolution of the disputed issues in this matter without extended litigation. Additionally, we note the very few customer comments received regarding the proposed rate increase.

81. Based on the totality of the circumstances presented in this case, we find that the Settlement Agreement, attached hereto as Exhibit A, is just and reasonable and that its adoption by the Commission is in the public interest. Thus, the Settlement Agreement, including all of its attachments, is approved.

82. We find the following to be just and reasonable and in the public interest, for purposes of setting rates for Valley:

TY Operating Revenues:	\$1,454,522
TY Operating Expenses:	\$1,442,240
TY Operating Income:	\$12,282
<b>OCRB/FVRB:</b>	<b>\$2,109,695</b>
TY Rate of Return:	0.58%
Required Operating Income:	\$137,130
Operating Income Deficiency:	\$124,848
Gross Revenue Conversion Factor	1.2853
<b>Required Revenue Increase:</b>	<b>\$160,467</b>
<b>Required Revenue Increase %:</b>	<b>11.03%</b>
Required Operating Revenues:	\$1,614,989
<b>Required Rate of Return:</b>	<b>6.50%</b>

83. Although the issue of the AIF Tariff once again was not litigated during this rate case, we find that it is just and reasonable and in the public interest to have it addressed and resolved in short order rather than having it continue in effect until litigated in a future rate case. Thus, in

1 addition to adopting the Settlement Agreement, and without modifying the Settlement Agreement as  
2 written, we will adopt a requirement for Valley to make a filing in this docket, with a copy filed in  
3 Docket No. W-01412A-04-0848, within 45 days after the effective date of this decision, proposing  
4 either the cancellation of the AIF Tariff or another means of resolving the AIF Tariff so that it is not  
5 permitted to continue indefinitely. We will also require Staff to review the filing and to file a Staff  
6 Report making a recommendation for the best course of action to resolve the AIF Tariff.

### 7 CONCLUSIONS OF LAW

8 1. Valley is a public service corporation within the meaning of Article XV of the Arizona  
9 Constitution and A.R.S. §§ 40-250, 40-251, and 40-367.

10 2. The Commission has jurisdiction over Valley and the subject matter of its Application  
11 and this Decision.

12 3. Notice of the Application was provided in accordance with the law.

13 4. Adoption of the Settlement Agreement, as discussed herein, is just and reasonable and  
14 in the public interest.

15 5. Valley's fair value rate base is \$2,109,695.

16 6. The rates, charges, and conditions of service established herein are just and reasonable  
17 and in the public interest.

18 7. It is just and reasonable and in the public interest to require Valley and Staff to make  
19 filings, as ordered herein, regarding the resolution of Valley's AIF Tariff.

20 8. The filings required to be made herein by Valley and Staff, regarding the resolution of  
21 Valley's AIF Tariff, do not constitute a modification of, and do not add any material terms to, the  
22 Settlement Agreement adopted herein.

### 23 ORDER

24 IT IS THEREFORE ORDERED that the Settlement Agreement filed in this Docket on  
25 February 25, 2013, and attached to this Decision as Exhibit A, is hereby approved as discussed  
26 herein.

27 ...  
28

1 IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. is hereby directed to  
2 file with the Commission, on or before July 1, 2013, revised schedules of its rates and charges  
3 consistent with Exhibit A and the findings herein.

4 IT IS FURTHER ORDERED that the rates and charges and conditions of service adopted  
5 herein shall be effective for all services rendered on and after July 1, 2013.

6 IT IS FURTHER ORDERED that Valley Utilities Water Company shall notify its customers  
7 of the revised schedules of rates and charges authorized herein by means of an insert in its next  
8 regularly scheduled billing, and by posting a notice on its website, in a form acceptable to the  
9 Commission's Utilities Division Staff.

10 IT IS FURTHER ORDERED that Valley Utilities Water Company shall implement and  
11 comply with the terms of the Settlement Agreement as discussed herein and that any failure to  
12 comply with the Settlement Agreement adopted herein shall be deemed a failure to comply with this  
13 Decision.

14 IT IS FURTHER ORDERED that Valley Utilities Water Company shall, within 45 days after  
15 the effective date of this Decision, file in this docket, with a copy filed in Docket No. W-01412A-04-  
16 0848, a document proposing either the cancellation of Valley Utilities Water Company's AIF Tariff  
17 or another means of resolving the AIF Tariff so that it is not permitted to continue indefinitely.

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IT IS FURTHER ORDERED that the Commission's Utilities Division shall review the filing made by Valley Utilities Water Company as required by the preceding ordering paragraph and shall, within 60 days after the date of such filing, file a Staff Report making a recommendation for the best course of action to resolve the AIF Tariff.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_ 2013.

JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

1 SERVICE LIST FOR: VALLEY UTILITIES WATER COMPANY, INC.

2 DOCKET NO.: W-01412A-12-0195

3  
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## **SETTLEMENT AGREEMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle all issues related to Arizona Corporation Commission Docket No. W-01412A-12-0195, Valley Utilities Water Company's application for a determination of fair value and the setting of rates thereon (the "Docket" or "Rate Case"). This Agreement is entered into by Valley Utilities Water Company, Inc. ("VUWCO" or "Company") and Arizona Corporation Commission Utilities Division ("Staff"), the only two parties to this Docket (a "Party", or collectively, the "Parties").

### **Terms And Conditions**

In consideration of the promises and agreements contained herein, the Parties agree that each, every and all of the following numbered sections and subsections comprise the Parties' Agreement.

#### **1. Recitals**

- 1.1 On May 30, 2012, VUWCO filed with the Commission an application for rate increases (Docket No. W-01412-12-0195).
- 1.2 No other entity filed to intervene.
- 1.3 A Procedural Order was issued on July 5, 2012, scheduling an evidentiary hearing on the rate application to begin on March 4, 2013. In a subsequent Procedural Order, issued on July 23, 2012, the hearing was set on February 27, 2013.
- 1.4 This Agreement is a result of the Parties' good faith efforts to settle all of the issues presented in the Rate Case.
- 1.5 The Parties agree and represent on their belief that the terms and conditions of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented by VUWCO's Rate Case. The adoption of this Agreement will further serve the public interest by allowing all parties to obtain greater certainty and avoid the expense, delay, and risk associated with continued protracted litigation.
- 1.6 As further reflected in this Agreement, the Parties acknowledge that under Arizona law the Commission has plenary authority over the determination of fair value and setting of rates.

**2. Resolution of Issues in Dispute**

2.1 In order to reach a full settlement, the Parties have agreed that the issues in dispute in the Rate Case should be resolved as follows:

- (a) Staff Rate Base Adjustments – VUWCO agrees to Staff Rate Base adjustments Nos. 1-6.
- (b) Working Capital Allowance – the Company's working capital allowance shall be reduced by \$28,220 adopting the cash working capital adjustment portion of Staff Rate Base Adjustment No. 7. The Company's WIFA Debt Service Reserve Fund in the amount of \$146,105 will be included in the working capital allowance as proposed by the Company.
- (c) Property Tax Expense – the correct level of property expense should be \$63,677.
- (d) Bad Debt Expense – the correct level of bad debt expense should be \$3,304.
- (e) Late Charge – the Company's late charge will remain at \$10 per month. In addition, Staff and VUWCO agree to meet within 45 days of a decision in this Docket case to discuss additional remedies the Company will employ to further reduce the delinquency rates. This Docket shall remain open until December 31, 2013, for this issue only to allow the Company to file any remedy resulting from discussions with Staff.
- (f) Rate Design – the rate design should provide that 40 percent of the metered revenue be collected from the monthly minimum as proposed by Staff. The resulting minimum charges are \$18.40 (5/8"x3/4" meters), \$27.60 (3/4" meters), \$46.00 (1" meters), \$92.00 (1 1/2" meters), \$147.20 (2" meters), \$294.40 (3" meters), \$460.00 (4" meters) and \$920 (6" meters). The break over points for 5/8" x 3/4" and 3/4" meters are not in dispute and shall be 3,000 and 10,000 gallons for residential meters and 10,000 gallons for commercial meters. The break over between the 2nd and 3rd tiers for the 1" and larger meters shall be as proposed by the Company. Specifically, the tier break over points would be 23,000 gallons for 1" meters, 58,000 for 1-1/2" meters, 95,000 for 2" meters, 207,000 for 3" meters, 335,000 for 4" meters and 690,000 for 6" meters. The commodity rates for each of the three tiers shall be \$1.60, \$2.88 and \$3.80 for the first, second and third tiers, respectively.

**3. Revenue Requirement – Rate Base, Operating Income, Rate of Return**

3.1 For ratemaking purposes and for the purposes of this Agreement, the Parties agree to each of the following settlement terms and conditions:

- (a) Rate increases should be based on adjusted test year revenues of \$1,454,522, which includes the test year Arsenic Surcharge Remediation Mechanism ("ARSM") revenue.

- (b) The ARSM should be discontinued.
  - (c) VUWCO should receive a total revenue increase of \$160,147, which revenue increase results in total revenue requirements of \$1,614,989 for the Company.
  - (d) The Company's fair value rate base should be \$2,109,695. All Parties agree that fair value rate base shall be equal to original cost less depreciation.
  - (e) The Company's total adjusted test year operating expenses should be \$1,442,240. The total operating expenses at proposed rates for VUWCO should be \$1,477,859.
  - (f) The revenue requirement should be based on Staff's proposed depreciation rates.
  - (g) An overall rate of return equal to 6.5 percent is fair and reasonable. This return includes a 0.3 percent upward adjustment to the weighted average cost of capital and is based on a capital structure consisting of 12.9 percent equity and 87.1 percent debt. The cost of the debt is 5.8 percent and the authorized return on equity is 9.1 percent.
  - (h) The return on rate base and recovery of operating expenses set forth herein result in total operating income of \$137,130.
  - (i) The revenue requirement agreed to herein results in an overall 11.03 percent rate increase over test year revenues, which revenues included the ARSM.
  - (i) The rates that result from the increased revenue requirements agreed to herein are just and reasonable and would result in VUWCO recovering its reasonable operating expenses and a just and reasonable return on its fair value rate base given the evidence presented to the Commission in this Rate Case and the terms and conditions of this Agreement.
- 3.2 The Settlement Schedules attached hereto as Exhibit A reflect the Parties' agreed upon rate base, operating expenses and operating income, cost of capital and rate design.

#### 4. Commission Approval

- 4.1 The Parties acknowledge and agree that the determination of VUWCO's fair value rate base and establishment of just and reasonable rates thereon, requires Commission approval, and that the Commission will independently consider and evaluate the terms of this Agreement. With respect to approval of this Agreement, the Parties agree as follows:
- (a) To support and defend the Agreement by filing the testimony as required by the Administrative Law Judge, appearing at any and all hearings, open meetings or other proceedings in the Docket related to the Agreement, and taking any and all other steps reasonably necessary to obtain Commission adoption of the material terms of the Agreement, including, but not limited to, eliciting support from its constituents.

- (b) To waive all rights to appeal a Commission decision providing the Commission adopts the material terms of this Agreement.
- (c) A final, non-appealable Commission order adopting the material terms of this Agreement shall constitute Commission approval of the Agreement for purposes of the Agreement.
- (d) Consistent with any order of the Commission, but not less than fifteen days after the Commission issues an order in this matter, VUWCO shall file compliance tariffs for Staff review and approval. Such compliance tariffs, however, will become effective upon the effective date of the rate increase stated in the Commission's Order.

4.2 The Parties further agree that in the event the Commission fails to issue an order adopting all material terms of this Agreement or modifies or adds material terms to this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party or Parties may pursue their respective remedies at law without prejudice. For the purposes of this Agreement, whether a term is material shall be left to the reasonable discretion of the Party choosing to withdraw from the Agreement. The Parties agree that this Agreement will not have any binding force or effect until its material terms are adopted as an order of the Commission. This provision shall not relieve the Parties of their obligations pursuant to this Section 5 of this Agreement.

## **5. Miscellaneous Provisions**

- 5.1 With respect to the Parties' Agreement as set forth herein, the Parties further agree to the following general terms and conditions of their agreement to settle their disputed claims in the rate case:
- (a) That each person whose signature appears below is fully authorized and empowered to execute this Agreement.
  - (b) That each Party is represented by competent legal counsel and that they understand all of the terms of this Agreement, that it has had an opportunity to participate in the drafting of this Agreement and fully review this Agreement with its counsel before signing, and that it executes this Agreement with full knowledge of the terms of the Agreement.
  - (c) Nothing in this Agreement shall be construed as an admission by any of the Parties that any of the positions taken by any Party in this proceeding is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any party in these proceedings.
  - (d) This Agreement represents the Parties' mutual desire to compromise and settle in good faith all disputed issues in the Rate Case in a manner consistent with the public interest. The terms and provisions of this Agreement apply solely to and are binding only in the context of the circumstances and those purposes. None of

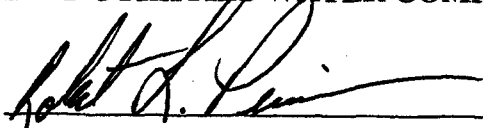
the positions taken in this Agreement by any of the Parties may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.

- (e) All negotiations relating to this Agreement are privileged and confidential. No Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement. The Parties expressly agree that evidence of conduct or statements made in the course of negotiating this Agreement shall not be offered and are not admissible before this Commission, any other regulatory agency, or any court.
- (f) Each of the terms and conditions of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable except upon express consent of the Parties.
- (g) This Agreement may be executed in counterparts. This Agreement also may be executed electronically or by facsimile.

Executed this 22<sup>nd</sup> day of February, 2013.

VALLEY UTILITIES WATER COMPANY, Inc.

By:

  
\_\_\_\_\_

Its:

President



ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION STAFF

By: \_\_\_\_\_

Its: \_\_\_\_\_

**Exhibit A**  
**Settlement Schedules**

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Computation of Increase in Gross Revenue Requirements

Schedule A-1 Settlement-Final  
 Page 1

Line

No.

1	Original Cost Adjusted Rate Base	\$ 2,109,695	
2			
3	Adjusted Operating Income	12,282	
4			
5	Current Rate of Return	0.58%	
6			
7	Required Operating Income	\$ 137,130	
8			
9	Required Rate of Return	6.500%	
10			
11	Operating Income Deficiency	\$ 124,848	
12			
13	Gross Revenue Conversion Factor	1.2853	
14			
15	Increase in Gross Revenue	\$ 160,467	11.03%
16			
17			
18		Projected	
19		Revenue	%
20		Increase Due	Dollar
21	<u>Customer Classification</u>	<u>To Rates</u>	<u>Increase</u>
22			
23	Fire Service	\$ 330	48.39%
24	Residential	99,086	10.22%
25	Commercial	7,526	10.49%
26	Commercial (Multifamily)	32,924	15.21%
27	Commercial (Irrigation)	24,111	17.47%
28	Other Water Revenue	-	0.00%
29			
30	Total Revenue Increase	\$ 163,977	11.27%
31			

DECISION NO. \_\_\_\_\_

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Original Cost Rate Base Pro forma Adjustments

Schedule B-1 Settlement-Final  
 Page 1

Line No.		Company As Filed	Accepted Staff Surrebuttal Adjustments	Staff ADJ NO.	Adjusted End of Test Year
1					
2	Gross Utility Plant in Service	\$ 10,331,861	\$ (86,051)	1,2,3,4,5	\$ 10,245,810
3					
4	Less: Accumulated Depreciation	(3,034,427)	22,782	6	(3,011,645)
5					
6	Net Utility Plant in Service	7,297,434	(63,269)		7,234,165
7					
8	Less:				
9	Advances in Aid of Construction	3,933,272	-		3,933,272
10					
11	Contributions in Aid of Construction	1,561,727	-		1,561,727
12	Accumulated Amortization of CIAC	(438,464)	-		(438,464)
13	Contributions in Aid of Construction - Net	1,123,263	-		1,123,263
14					
15	Customer Security Deposits	78,425	-		78,425
16	Deferred Income Taxes	195,362	-		195,362
17					
18	Plus:				
19	Working Capital	234,073	(28,220)	7	205,853
20	Net Regulatory Asset / (Liability)				
21					
22	Rate Base	\$ 2,201,184	\$ (91,489)		\$ 2,109,695

DECISION NO. \_\_\_\_\_

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Adjusted Test Year Income Statement

Schedule C-1 Settlement-Final  
 Page 1

Line No.		Company Test Year As Filed	Proposed Rate Increase	Adjusted With Rate Increase
1	<b>Revenues</b>			
2	460 Unmetered Water Revenue	\$ 682	330	\$ 1,012
3	461 Metered Water Revenues	1,395,426	160,137	1,555,564
4	474 Other Water Revenues	58,414		58,414
5	<b>Total Revenues</b>	\$ 1,454,522	\$ 160,467	\$ 1,614,989
6	<b>Operating Expenses</b>			
7	601 Salaries and Wages	\$ 452,645		\$ 452,645
8	604 Employee Pension and Benefits	73,738		73,738
9	610 Purchased Water	4,045		4,045
10	615 Purchased Power	143,759		143,759
11	618 Chemicals	7,567		7,567
12	620 Repairs and Maintenance	128,499		128,499
13	621 Office Supplies Expense	8,119		8,119
14	631 Contractual Services - Engineering	2,020		2,020
15	632 Contractual Services - Accounting	2,879		2,879
16	633 Contractual Services - Legal	4,259		4,259
17	634 Contractual Services - Management Fees	-		-
18	635 Contractual Services - Testing	10,732		10,732
19	636 Contractual Services - Other	14,069		14,069
20	641 Rent - Buildings	35,553		35,553
21	642 Rent - Equipment	2,215		2,215
22	650 Transportation Expense	29,087		29,087
23	656 Insurance - Vehicle	-		-
24	657 Insurance - General Liability	20,878		20,878
25	658 Insurance - Workman's Compensation	2,528		2,528
26	659 Insurance - Other	-		-
27	660 Advertising Expense	-		-
28	666 Regulatory Commission Expense - Rate Case	40,000		40,000
29	667 Regulatory Expense - Other	14,169		14,169
30	668 Water Resource Conservation Expense	-		-
31	670 Bad Debt Expense	2,975	328	3,304
32	675 Miscellaneous Expense	49,017		49,017
33	403 Depreciation Expense	322,982		322,982
34	408 Taxes Other Than Income	33,756		33,756
35	408.11 Property Taxes	61,408	2,258	63,667
36	409 Income Tax	(24,660)	33,033	8,373
37	<b>Total Operating Expenses</b>	\$ 1,442,240	\$ 35,620	\$ 1,477,859
38	<b>Operating Income</b>	\$ 12,282	\$ 124,848	\$ 137,130
39	<b>Other Income (Expense)</b>			
40	419 Interest and Dividend Income	\$ 68		\$ 68
41	421 Non-Utility Income	164		164
42	426 Miscellaneous Non-Utility Expenses	(15,828)		(15,828)
43	427 Interest Expense	(106,193)		(106,193)
44	<b>Total Other Income (Expense)</b>	\$ (121,789)	\$ -	\$ (121,789)
45	<b>Net Income (Loss)</b>	\$ (109,506)	\$ 124,848	\$ 15,342
46				

DECISION NO. \_\_\_\_\_

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.

Test Year Ended December 31, 2011

Summary of Revenues by Customer Classification - Present and Proposed Rates

Schedule H-1 Settlement-Final

Page 1

Line No.	Customer Classification	<u>Revenues in the Test Year</u>		<u>Proposed Increase</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
1					
2	<u>Unmetered Water Revenue</u>				
3	Fire Service	\$ 682	\$ 1,012	\$ 330	48.39%
4					
5	<u>Metered Water Revenue</u>				
6	Residential	969,595	1,068,681	99,086	10.22%
7	Commercial	71,753	79,279	7,526	10.49%
8	Commercial (Multifamily)	216,458	249,382	32,924	15.21%
9	Commercial (Irrigation)	137,973	162,083	24,111	17.47%
10					
11	Other Water Revenue	58,414	58,414	-	0.00%
12					
13	Total Water Revenues	<u>\$ 1,454,874</u>	<u>\$ 1,618,851</u>	<u>\$ 163,977</u>	11.27%
14					

DECISION NO. \_\_\_\_\_

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Analysis of Revenue by Detailed Class

Schedule H-2 Settlement-Final  
 Page 1

Line No.	Description	Average Number Customers	Average Consumption	Revenues		Proposed	
				Present Rates	Proposed Rates	Increase Amount	Increase %
1							
2	<u>Unmetered Water Revenue</u>						
3	6" Fire Service	5		\$ 682	\$ 1,012	\$ 330	48.39%
4							
5	<u>Metered Water Revenue</u>						
6	5/8 x 3/4" Residential	98	7,055	\$ 40,404	\$ 44,115	\$ 3,712	9.19%
7	3/4" Residential	831	9,425	495,875	541,742	45,867	9.25%
8	1" Residential	371	19,463	431,501	480,846	49,345	11.44%
9	1 1/2" Residential	1	25,283	1,815	1,978	163	8.98%
10							
11	5/8 x 3/4" Commercial	7	1,389	\$ 1,683	\$ 1,770	87	5.17%
12	3/4" Commercial	4	5,605	1,988	2,155	166	8.37%
13	1" Commercial	12	34,596	20,810	23,832	3,022	14.52%
14	1 1/2" Commercial	8	32,516	16,576	18,285	1,708	10.30%
15	2" Commercial	9	28,478	23,037	24,862	1,825	7.92%
16	3" Commercial (Construction)	1	42,243	7,658	8,376	717	9.37%
17							
18	1" Commercial (Multifamily)	1	26,832	\$ 1,391	\$ 1,567	177	12.69%
19	2" Commercial (Multifamily)	33	141,164	215,067	247,815	32,748	15.23%
20							
21	3/4" Commercial (Irrigation)	-	-	\$ -	\$ -	-	-
22	1" Commercial (Irrigation)	8	38,186	14,059	16,146	2,086	14.84%
23	1 1/2" Commercial (Irrigation)	3	93,833	13,063	15,110	2,047	15.67%
24	2" Commercial (Irrigation)	8	338,181	110,851	130,827	19,977	18.02%
25							
26	<b>Totals:</b>						
27	<u>Unmetered Water Revenue</u>						
28	Fire Service	5		\$ 682	\$ 1,012	\$ 330	48.39%
29							
30	<u>Metered Water Revenue</u>						
31	Residential	1,301	12,121	\$ 969,595	\$ 1,068,681	99,086	10.22%
32	Commercial	41	24,536	71,753	79,279	7,526	10.49%
33	Commercial (Multifamily)	34	137,801	216,458	249,382	32,924	15.21%
34	Commercial (Irrigation)	19	173,286	137,973	162,083	24,111	17.47%
35	Subtotal Metered	1,395		\$ 1,395,778	\$ 1,559,425	\$ 163,647	11.72%
36							
37	Other Water Revenue			\$ 58,414	\$ 58,414	-	0.00%
38							
39	<b>Total</b>	<b>1,400</b>		<b>\$ 1,454,874</b>	<b>\$ 1,618,851</b>	<b>\$ 163,977</b>	<b>11.27%</b>
40							

DECISION NO. \_\_\_\_\_

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Changes in Representative Rate Schedules

Schedule H-3 Settlement-Final  
 Page 1

Line No.										
1	<b><u>General Water Service Rates</u></b>									
2										
3			<u>Base Charge</u>			<u>Volume Charge</u>				
4			Present	Proposed		Present	Proposed			
5	Description	Block	Rate	Rate	Change	Rate	Rate	Change		
6										
7	5/8 x 3/4" Residential Meter	Tier 1 3,000 gal.	\$ 12.40	\$ 18.40	\$ 6.00	\$ 1.50	\$ 1.60	\$ 0.10		
8		Tier 2 10,000 gal.				\$ 2.44	\$ 2.88	\$ .044		
9		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
10	3/4" Residential Meter	Tier 1 3,000 gal.	\$ 18.60	\$ 27.60	\$ 9.00	\$ 1.50	\$ 1.60	\$ 0.10		
11		Tier 2 10,000 gal.				\$ 2.44	\$ 2.88	\$ 0.44		
12		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
13	5/8" x 3/4" Commercial Meter	Tier 2 10,000 gal.	\$ 12.40	\$ 18.40	\$ 6.00	\$ 2.44	\$ 2.88	\$ 0.44		
14		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
15	3/4" Commercial Meter	Tier 2 10,000 gal.	\$ 18.60	\$ 27.60	\$ 9.00	\$ 2.44	\$ 2.88	\$ 0.44		
16		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
17	1" All Meters	Tier 2 23,000 gal.	\$ 31.00	\$ 46.00	\$ 15.00	\$ 2.44	\$ 2.88	\$ 0.44		
18		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
19	1 1/2" All Meters	Tier 2 58,000 gal.	\$ 62.00	\$ 92.00	\$ 30.00	\$ 2.44	\$ 2.88	\$ 0.44		
20		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
21	2" All Meters	Tier 2 95,000 gal.	\$ 99.00	\$ 147.20	\$ 48.20	\$ 2.44	\$ 2.88	\$ 0.44		
22		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
23	3" All Meters	Tier 2 207,000 gal.	\$ 198.00	\$ 294.40	\$ 96.40	\$ 2.44	\$ 2.88	\$ 0.44		
24		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
25	4" All Meters	Tier 2 335,000 gal.	\$ 310.00	\$ 460.00	\$ 150.00	\$ 2.44	\$ 2.88	\$ 0.44		
26		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
27	6" All Meters	Tier 2 690,000 gal.	\$ 620.00	\$ 920.00	\$ 300.00	\$ 2.44	\$ 2.88	\$ 0.44		
28		Tier 3 999,999,000 gal.				\$ 3.15	\$ 3.80	\$ 0.65		
29	Construction Water	Tier 3 999,999,000 gal.	By Meter Size			\$ 3.15	\$ 3.80	\$ 0.65		
30										
31	<b><u>Arsenic Surcharge (Decision No. 71287)</u></b>									
32			Present	Proposed						
33	Meter Size		Rate	Rate						
34	5/8 x 3/4" All Meters		\$ 5.51	\$ -						
35	3/4" All Meters		\$ 8.26	\$ -						
36	1" All Meters		\$ 13.77	\$ -						
37	1 1/2" All Meters		\$ 27.54	\$ -						
38	2" All Meters		\$ 44.06	\$ -						
39	3" All Meters		\$ 88.12	\$ -						
40	4" All Meters	nt		\$ -						
41	6" All Meters	nt		\$ -						
42										
43	<b><u>Monthly Service Charge for Fire Sprinkler</u></b>									
44			Present	Proposed						
45			Rates	Rates						
46	All Meter Sizes		***	***						
47	*** Greater of \$10.00 or 2 percent of the general service rate for a similar size meter									
48										
49										

DECISION NO. \_\_\_\_\_



Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Changes in Representative Rate Schedules

Schedule H-3 Settlement-Final  
 Page 2

Line

No.

	<u>Other Service Charges</u>	
	Present Rates	Proposed Rates
1		
2		
3	Establishment	\$ 40.00
4	Establishment (After Hours)	\$ 60.00
5	Reconnection (Delinquent)	\$ 40.00
6	Reconnection (Delinquent and After Hours)	\$ 60.00
7	Meter Test (If correct)	\$ 30.00
8	After Hours Charge	n/t
	Deposit Requirement (Residential)	2 times the average bill
9		
	Deposit Requirement (None Residential Meter)	2-1/2 times the average bill
10		
11	Deposit Interest	6.0%
	Re-Establishment (Within 12 Months)	Number of Months off system times the monthly minimum bill
12		
13	NSF Check	\$ 25.00
14	Deferred Payment, Per Month	1.5%
15	Meter Re-Read (If correct)	\$ 10.00
16	Moving Customer Meter at Customer Request	Cost
17	Late Charge per month	\$ 10.00
18	After Hours Service Charge, per R14-2-403(D)	\$ 50.00
19		
20	In addition to the collection of regular rates, the utility will collect from its	
21	customers a proportionate share of any privilege, sales, use, and franchise tax,	
22	per Commission rule A.A.C. 14-2-409(D)(5).	
23		
24	All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.	
25		
26	n/t - no tariff	
27		

	<u>Service Line and Meter Installation Charges</u>			<u>Present Rates</u>			<u>Proposed Rates</u>		
	<u>Srv. Line</u>	<u>Meter</u>	<u>Total</u>	<u>Srv. Line*</u>	<u>Meter</u>	<u>Total</u>	<u>Srv. Line*</u>	<u>Meter</u>	<u>Total</u>
29									
30	5/8" Meter	\$ 445	\$ 155	\$ 600	\$ 445	\$ 155	\$ 600		
31	3/4" Meter	\$ 445	\$ 255	\$ 700	\$ 445	\$ 255	\$ 700		
32	1" Meter	\$ 495	\$ 315	\$ 810	\$ 495	\$ 315	\$ 810		
33	1 1/2" Meter	\$ 550	\$ 525	\$ 1,075	\$ 550	\$ 525	\$ 1,075		
34	2" Turbine Meter	\$ 830	\$ 1,045	\$ 1,875	\$ 830	\$ 1,045	\$ 1,875		
35	2" Compound Meter	\$ 830	\$ 1,890	\$ 2,720	\$ 830	\$ 1,890	\$ 2,720		
36	3" Turbine Meter	\$ 1,045	\$ 1,670	\$ 2,715	\$ 1,045	\$ 1,670	\$ 2,715		
37	3" Compound Meter	\$ 1,165	\$ 2,545	\$ 3,710	\$ 1,165	\$ 2,545	\$ 3,710		
38	4" Turbine Meter	\$ 1,490	\$ 2,670	\$ 4,160	\$ 1,490	\$ 2,670	\$ 4,160		
39	4" Compound Meter	\$ 1,670	\$ 3,645	\$ 5,315	\$ 1,670	\$ 3,645	\$ 5,315		
40	6" Turbine Meter	\$ 2,210	\$ 5,025	\$ 7,235	\$ 2,210	\$ 5,025	\$ 7,235		
41	6" Compound Meter	\$ 2,330	\$ 6,920	\$ 9,250	\$ 2,330	\$ 6,920	\$ 9,250		
42	8" or Larger Meter	Cost	Cost	Cost	Cost	Cost	Cost		

\* Note: To include the actual cost incurred when road crossing is required

44

45 All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes,  
 46 including gross-up taxes for Federal and State taxes, if applicable.

47

48 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.

49

50

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Typical Bill Analysis

Schedule H-4 Settlement-Final

Meter Size: 5/8" x 3/4"  
 Class: Residential  
 Rate Code: R1

Line No.	Rate Schedules	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	<b>Present Rates:</b>	-	\$ 17.91	\$ 18.40	\$ 0.49	2.74%
2	Base Charge:	1,000	\$ 19.41	\$ 20.00	\$ 0.59	3.04%
3	Arsenic Surcharge:	2,000	\$ 20.91	\$ 21.60	\$ 0.69	3.30%
4		3,000	\$ 22.41	\$ 23.20	\$ 0.79	3.53%
5	Tier One Rate:	4,000	\$ 24.85	\$ 26.08	\$ 1.23	4.95%
6	Tier Two Rate:	5,000	\$ 27.29	\$ 28.96	\$ 1.67	6.12%
7	Tier Three Rate:	6,000	\$ 29.73	\$ 31.84	\$ 2.11	7.10%
8		7,000	\$ 32.17	\$ 34.72	\$ 2.55	7.93%
9	Tier One Breakover (M gal):	3	\$ 34.61	\$ 37.60	\$ 2.99	8.64%
10	Tier Two Breakover (M gal):	10	\$ 37.05	\$ 40.48	\$ 3.43	9.26%
11	Tier Three Breakover (M gal):	999,999	\$ 39.49	\$ 43.36	\$ 3.87	9.80%
12		12,000	\$ 45.79	\$ 50.96	\$ 5.17	11.29%
13		14,000	\$ 52.09	\$ 58.56	\$ 6.47	12.42%
14	<b>Proposed Rates:</b>	16,000	\$ 58.39	\$ 66.16	\$ 7.77	13.31%
15	Base Charge:	18,000	\$ 64.69	\$ 73.76	\$ 9.07	14.02%
16	Arsenic Surcharge:	20,000	\$ 70.99	\$ 81.36	\$ 10.37	14.61%
17		25,000	\$ 86.74	\$ 100.36	\$ 13.62	15.70%
18	Tier One Rate:	30,000	\$ 102.49	\$ 119.36	\$ 16.87	16.46%
19	Tier Two Rate:	35,000	\$ 118.24	\$ 138.36	\$ 20.12	17.02%
20	Tier Three Rate:	40,000	\$ 133.99	\$ 157.36	\$ 23.37	17.44%
21		45,000	\$ 149.74	\$ 176.36	\$ 26.62	17.78%
22	Tier One Breakover (M gal):	3	\$ 165.49	\$ 195.36	\$ 29.87	18.05%
23	Tier Two Breakover (M gal):	10	\$ 196.99	\$ 233.36	\$ 36.37	18.46%
24	Tier Three Breakover (M gal):	999,999	\$ 228.49	\$ 271.36	\$ 42.87	18.76%
25		80,000	\$ 259.99	\$ 309.36	\$ 49.37	18.99%
26		90,000	\$ 291.49	\$ 347.36	\$ 55.87	19.17%
27		100,000	\$ 322.99	\$ 385.36	\$ 62.37	19.31%
28						
29		Average Usage				
30		7,055	\$ 32.30	\$ 34.88	\$ 2.58	7.99%
31		Median Usage				
32		4,546	\$ 26.18	\$ 27.65	\$ 1.47	5.61%
33						
34						

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Typical Bill Analysis

Schedule H-4 Settlement-Final

Meter Size: 3/4"  
 Class: Residential  
 Rate Code: R2

Line No.	Rate Schedules	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	<b><u>Present Rates:</u></b>	-	\$ 26.86	\$ 27.60	\$ 0.74	2.76%
2	Base Charge: \$ 18.60	1,000	\$ 28.36	\$ 29.20	\$ 0.84	2.96%
3	Arsenic Surcharge: \$ 8.26	2,000	\$ 29.86	\$ 30.80	\$ 0.94	3.15%
4		3,000	\$ 31.36	\$ 32.40	\$ 1.04	3.32%
5	Tier One Rate: \$ 1.50	4,000	\$ 33.80	\$ 35.28	\$ 1.48	4.38%
6	Tier Two Rate: \$ 2.44	5,000	\$ 36.24	\$ 38.16	\$ 1.92	5.30%
7	Tier Three Rate: \$ 3.15	6,000	\$ 38.68	\$ 41.04	\$ 2.36	6.10%
8		7,000	\$ 41.12	\$ 43.92	\$ 2.80	6.81%
9	Tier One Breakover (M gal): 3	8,000	\$ 43.56	\$ 46.80	\$ 3.24	7.44%
10	Tier Two Breakover (M gal): 10	9,000	\$ 46.00	\$ 49.68	\$ 3.68	8.00%
11	Tier Three Breakover (M gal): 999,999	10,000	\$ 48.44	\$ 52.56	\$ 4.12	8.51%
12		12,000	\$ 54.74	\$ 60.16	\$ 5.42	9.90%
13		14,000	\$ 61.04	\$ 67.76	\$ 6.72	11.01%
14	<b><u>Proposed Rates:</u></b>	16,000	\$ 67.34	\$ 75.36	\$ 8.02	11.91%
15	Base Charge: \$ 27.60	18,000	\$ 73.64	\$ 82.96	\$ 9.32	12.66%
16	Arsenic Surcharge: \$ -	20,000	\$ 79.94	\$ 90.56	\$ 10.62	13.28%
17		25,000	\$ 95.69	\$ 109.56	\$ 13.87	14.49%
18	Tier One Rate: \$ 1.60	30,000	\$ 111.44	\$ 128.56	\$ 17.12	15.36%
19	Tier Two Rate: \$ 2.88	35,000	\$ 127.19	\$ 147.56	\$ 20.37	16.02%
20	Tier Three Rate: \$ 3.80	40,000	\$ 142.94	\$ 166.56	\$ 23.62	16.52%
21		45,000	\$ 158.69	\$ 185.56	\$ 26.87	16.93%
22	Tier One Breakover (M gal): 3	50,000	\$ 174.44	\$ 204.56	\$ 30.12	17.27%
23	Tier Two Breakover (M gal): 10	60,000	\$ 205.94	\$ 242.56	\$ 36.62	17.78%
24	Tier Three Breakover (M gal): 999,999	70,000	\$ 237.44	\$ 280.56	\$ 43.12	18.16%
25		80,000	\$ 268.94	\$ 318.56	\$ 49.62	18.45%
26		90,000	\$ 300.44	\$ 356.56	\$ 56.12	18.68%
27		100,000	\$ 331.94	\$ 394.56	\$ 62.62	18.86%
28						
29		Average Usage				
30		9,425	\$ 47.04	\$ 50.90	\$ 3.86	8.21%
31		Median Usage				
32		7,013	\$ 41.15	\$ 43.96	\$ 2.81	6.83%
33						
34						

## EXHIBIT A

DOCKET NO. W-01412A-12-0195

Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2011  
 Typical Bill Analysis

Schedule H-4 Settlement-Final

Meter Size: 1"  
 Class: Residential  
 Rate Code: R3

Line No.	Rate Schedules	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	<b>Present Rates:</b>	-	\$ 44.77	\$ 46.00	\$ 1.23	2.75%
2	Base Charge:	\$ 31.00	1,000 \$ 47.21	\$ 48.88	\$ 1.67	3.54%
3	Arsenic Surcharge:	\$ 13.77	2,000 \$ 49.65	\$ 51.76	\$ 2.11	4.25%
4			3,000 \$ 52.09	\$ 54.64	\$ 2.55	4.90%
5	Tier One Rate:	\$ -	4,000 \$ 54.53	\$ 57.52	\$ 2.99	5.48%
6	Tier Two Rate:	\$ 2.44	5,000 \$ 56.97	\$ 60.40	\$ 3.43	6.02%
7	Tier Three Rate:	\$ 3.15	6,000 \$ 59.41	\$ 63.28	\$ 3.87	6.51%
8			7,000 \$ 61.85	\$ 66.16	\$ 4.31	6.97%
9	Tier One Breakover (M gal):	-	8,000 \$ 64.29	\$ 69.04	\$ 4.75	7.39%
10	Tier Two Breakover (M gal):	23	9,000 \$ 66.73	\$ 71.92	\$ 5.19	7.78%
11	Tier Three Breakover (M gal):	999,999	10,000 \$ 69.17	\$ 74.80	\$ 5.63	8.14%
12			12,000 \$ 74.05	\$ 80.56	\$ 6.51	8.79%
13			14,000 \$ 78.93	\$ 86.32	\$ 7.39	9.36%
14	<b>Proposed Rates:</b>		16,000 \$ 83.81	\$ 92.08	\$ 8.27	9.87%
15	Base Charge:	\$ 46.00	18,000 \$ 88.69	\$ 97.84	\$ 9.15	10.32%
16	Arsenic Surcharge:	\$ -	20,000 \$ 93.57	\$ 103.60	\$ 10.03	10.72%
17			25,000 \$ 107.19	\$ 119.84	\$ 12.65	11.80%
18	Tier One Rate:	\$ -	30,000 \$ 122.94	\$ 138.84	\$ 15.90	12.93%
19	Tier Two Rate:	\$ 2.88	35,000 \$ 138.69	\$ 157.84	\$ 19.15	13.81%
20	Tier Three Rate:	\$ 3.80	40,000 \$ 154.44	\$ 176.84	\$ 22.40	14.50%
21			45,000 \$ 170.19	\$ 195.84	\$ 25.65	15.07%
22	Tier One Breakover (M gal):	-	50,000 \$ 185.94	\$ 214.84	\$ 28.90	15.54%
23	Tier Two Breakover (M gal):	23	60,000 \$ 217.44	\$ 252.84	\$ 35.40	16.28%
24	Tier Three Breakover (M gal):	999,999	70,000 \$ 248.94	\$ 290.84	\$ 41.90	16.83%
25			80,000 \$ 280.44	\$ 328.84	\$ 48.40	17.26%
26			90,000 \$ 311.94	\$ 366.84	\$ 54.90	17.60%
27			100,000 \$ 343.44	\$ 404.84	\$ 61.40	17.88%
28						
29		Average Usage				
30		19,463	\$ 92.26	\$ 102.05	\$ 9.79	10.61%
31		Median Usage				
32		13,096	\$ 76.72	\$ 83.72	\$ 7.00	9.12%
33						
34						